Product highlights

Benchmarking for Australia's superannuation funds

Guide to the FTSE ASFA Australia Index Series

The FTSE ASFA Australia Index Series, a partnership between FTSE Russell and the Association of Superannuation Funds of Australia (ASFA), is designed to address the requirement of Australia's superannuation fund sector for equity indexes that accurately measure post-tax performance.

Superannuation funds are taxed both on their dividend income and their capital gains. As a result, equity indexes calculated using a zero tax assumption are inadequate for the measurement of superannuation funds' performance and may also give a misleading impression about the attractiveness of individual investment opportunities.

The FTSE ASFA Australia Index Series was launched in 2009, following extensive consultations with the largest superannuation funds, asset consultants, fund managers and investment banks. These consultations revealed strong support for the development of tax-adjusted equity indexes.

The **FTSE ASFA Australia Index Series** is one of a number of regional indexes calculated and maintained by FTSE Russell.

FTSE Russell applies global standards in index methodology, while taking into account local market characteristics.

FTSE Russell seeks to implement a consistent approach when constructing partner indexes: for example, within equity markets, by using a single industry classification framework and applying a common standard for measuring and reflecting index constituents' free float and shares in issue.

Association of Superannuation Funds of Australia

ASFA is the peak policy, research and advocacy body for Australia's superannuation (super) industry.

ASFA's purpose is to help achieve the best retirement outcomes for members of super funds through the development of good public policy and industry best practice.

Australia's superannuation market

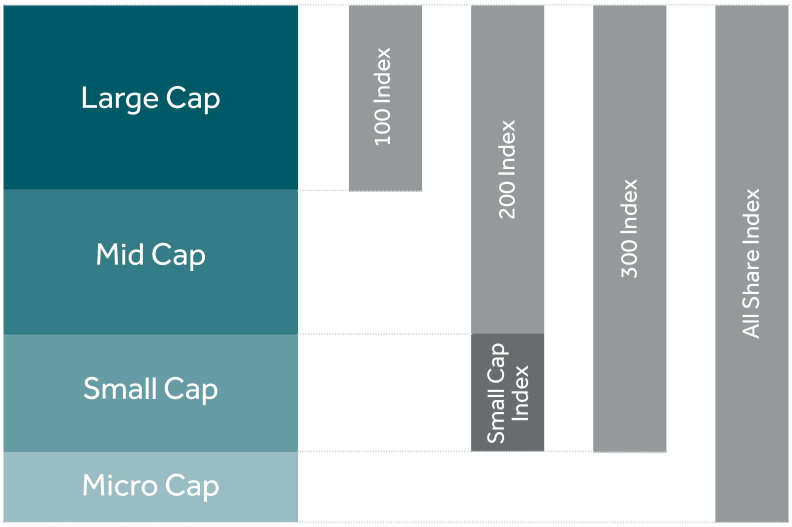
Australia's superannuation market is the fourth largest national pension fund system in the world, with US$1.8 trillion in assets at the end of 2018, according to Towers Watson.[1]

The growth of the superannuation industry is due in large part to the introduction of a compulsory pension saving system by the Australian government in 1992. The new superannuation system, which replaced an earlier, voluntary system providing limited coverage, was supported by tax incentives for pension saving.

1 Source: Towers Watson Global Pensions Asset Study – 2019

Index structure and characteristics

FTSE ASFA Australia Index Series structure



Key index characteristics

FTSE ASFA Australia All-Share Index	All companies within the top 98% (ranked by full market capitalisation) of the eligible universe. The index eligibility requirements include screenings for liquidity and minimum free float.[2] The index series excludes CHESS depositary interests (CDIs) and investment trusts.
FTSE ASFA Australia Small Cap Index	The remaining members of the FTSE ASFA Australia All-Share Index (i.e. excluding the constituents of the FTSE ASFA Australia 200 Index).
FTSE ASFA Australia 100 Index	The 100 largest companies by full market capitalisation of the FTSE ASFA Australia All-Share Index.
FTSE ASFA Australia 200 Index	The 200 largest companies by full market capitalisation of the FTSE ASFA Australia All-Share Index.
FTSE ASFA Australia 300 Index	The 300 largest companies within the FTSE ASFA Australia All-Share Index.
FTSE ASFA Australia Sector Indexes	Sector indexes are calculated for all the FTSE ASFA Australia indexes, based on the Industry Classification Benchmark (ICB).

2 For further details, see the index rules, available at www.ftse.com/products/downloads/FTSE_ASFA_Australia_Index_Series.pdf

Tax adjustments

During the consultations that preceded the launch of the FTSE ASFA Australia Index Series, superannuation funds highlighted three types of taxation that were of particular interest in the calculation of post-tax indexes: capital gains tax, the credits attached to Australian companies' dividends, and the tax effects of share buy-backs conducted off-exchange.

Australian companies are allowed to pass on to tax residents a credit (called an imputation or franking credit) for corporation tax paid on profits, when distributing those profits as dividends. As superannuation funds are liable to pay income tax at a 15% annual rate, and the corporation tax rate is currently 30%, they can potentially reclaim up to half the franking credits attached to company dividends.

Finally, companies may conduct buy-backs of their shares off-exchange at a discount to the prevailing market price. If the buyback is structured to include a substantial franked dividend component, it may prove attractive to investors that pay tax at a zero or low marginal rate (such as tax-exempt investors and superannuation schemes), regardless of the initial discount.

In the FTSE ASFA Australia tax-adjusted indexes, some of the following adjustments are made by comparison with the equivalent unadjusted indexes.

Include franking credits

The franking credits attached to share dividends and the franking credit component of off-market share buy-backs are included.

Adjust for buy-backs

In the case of a discounted off-market buyback, the capital index is adjusted to take into account any loss in the value of shares arising from the buy-back (by comparison, in unadjusted conventional indexes buy-backs, whether conducted on- or off-market, are reflected in the index calculation at the official exchange closing price of the security).

In total return index versions, an adjustment is made for any franking credits associated as a result of the buyback, using historical cost assumptions that are based on a 5-year rolling turnover methodology.

Apply tax to the income received

The FTSE ASFA Australia tax-adjusted indexes are calculated at two different income tax rates, reflecting the needs of two types of investor.

These are tax-exempt investors (who are subject to a zero tax rate) and superannuation funds (who pay income tax at a marginal rate of 15%).

Customisation

The methodology used to calculate the FTSE ASFA Australia tax-adjusted indexes is based on standardised assumptions that may not apply for all investors.

FTSE Russell offers investors the ability to customise the FTSE ASFA Australia Index Series to meet their individual requirements. In customised indexes, for example, investors may decide to apply security screens to the underlying universe or decide whether to incorporate off-market buy-backs in the index calculation.

Governance by independent committee

The FTSE ASFA Australia Index Series is supported by the FTSE Asia Pacific Regional Advisory Committee, which consists of senior investment professionals and finance industry experts. The committee acts independently to advise on the creation of new indexes, enhancements to index methodologies and to ensure that the index series evolves with any changes in the market environment.

Tax-adjusted indexes

FTSE Russell produces two types of tax-adjusted index.

Franking Credit Indexes

Franking Credit Indexes include the franking credits attached to dividends and include the franking credits arising from off-market buybacks. Different versions of the Franking Credit Indexes are then produced for investors facing different marginal income tax rates.

Features of the FTSE ASFA Australia Tax-adjusted Indexes

FTSE ASFA AUSTRALIA INDEX SERIES Non-tax adjusted			FRANKING CREDIT INDEXES		
FTSE ASFA Australia 100 Index	FTSE ASFA Australia 200 Index	FTSE ASFA Australia 300 Index	FTSE ASFA Australia Small Cap Index	FTSE ASFA Australia All-share Index	FTSE ASFA Australia Sector Indexes

		FRANKING CREDIT INDEXES		
Index features	Non-tax adjusted	Tax exempt 0%	Superannuation 15%	Super dividends 15%[3]
1) Apply tax to income in index			✓	✓
2) Include franking credits attached to dividends		✓	✓	
3) Include franking credits from participation in off-market buy-backs		✓	✓	

3 Super Dividends indexes only apply tax to income, and when compared with the superannuation indexes allow superannuation funds to assess the impact of franking credits on performance.

For more information about our indexes, please visit ftserussell.com.

About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

For more information, visit ftserussell.com.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 (3) 4563 6346

Sydney +61 (0) 2 8823 3521